

**United States Senate**  
COMMITTEE ON FINANCE  
WASHINGTON, DC 20510-6200

March 15, 2010

**Via Electronic Transmission**

The Honorable Shaun L. Donovan  
Secretary  
United States Department of Housing and Urban Development  
Robert C. Weaver Federal Building  
451 Seventh Street, SW  
Washington, DC 20410

Dear Secretary Donovan:

As the Senior Senator from Iowa, I have a duty to conduct oversight into how federal entities spend taxpayer dollars, especially when fraud, waste, or abuse might be involved. I also serve as the Ranking Member of the Committee on Finance (Committee), which has exclusive jurisdiction over both federal taxation and our country's public debt. In both capacities, my duty to conduct oversight is more important than ever with federal spending at unprecedented levels due in part to the passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act or the Act).

Congress enacted the Recovery Act in an effort to stimulate economic activity and stave off further decline in the American economy. I opposed final passage of the Recovery Act because, as I said at the time, it was loaded down with spending to satisfy special interests rather than to stimulate the economy. Pursuant to the Act, the Department of Housing and Urban Development (HUD) received nearly \$14 billion of taxpayer money. It is crucial that these funds are being used properly and that HUD is acting to prevent fraud, waste and abuse of these funds.

I recently had my staff review a series of reports issued by the HUD Office of Inspector General (OIG) which specifically examined Recovery Act funding implementation at State Housing Authorities under HUD. The HUD OIG has audited a variety of State Housing Authorities to examine the integrity of the use of Recovery Act funds, and I want to take this opportunity to share their findings and my concerns with you.

**Audit of Puerto Rico Public Housing Administration Capital Fund Financing Program**

As of September 30, 2009, HUD had obligated over \$312 million of Recovery Act funds to Puerto Rico, which puts Puerto Rico as one of the top 10 states and/or territories receiving Recovery Act Funds. This money will flow through the Puerto Rico Public Housing Administration (PRPHA), which was recently the subject of an audit by

the OIG. Auditing funds that PRPHA used in the 2003 Capital Fund Financing Program (CFFP), the OIG found that PRPHA had serious problems, in that it:

- disbursed more than \$57.4 million in CFFP to pay for interest charges on unused borrowed capital that provided no benefits to the public housing program or its residents;
- could not account for more than \$18.7 million in program income and did not use \$50.3 million in program income to defray program costs;
- did not maintain accurate and current accounting records and provided HUD inaccurate information on its Financing Program activities; and
- did not have sufficient internal controls to safeguard assets or ensure that funds were used in accordance with applicable requirements.

In light of the hundreds of millions of dollars that will flow through PRPHA under the Recovery Act, these findings do not bode well for how tax dollars will be used. On top of this, the audit also looked into Recovery Funds already spent and found something equally disturbing: the OIG determined that PRPHA had inappropriately obligated \$32.12 million in Recovery Act funds to plug expenditures from nonfederal funds. Rather than using these funds for Recovery Act purposes, the authority is shoring up its own budget in areas that were the responsibility of nonfederal sources.

### **Housing Authority Capacity Audits**

Further, the OIG performed capacity audits at a variety of State Housing Authorities. These audits were used to determine if grantees' administrative systems were capable of effectively handling the receipt of Recovery Act funds. The findings also fail to inspire confidence, to say the least.

The audit found that many Housing Authorities across the country had significant deficiencies in their capacity to administer Recovery Act funds, magnifying the potential risk of fraud, waste and abuse once those funds are distributed. Listed below is just a small selection of what OIG found:

- New London Housing Authority (NLHA) in New London, Connecticut was awarded nearly \$382,000 through a capital fund formula grant under the Recovery Act. According to OIG, NLHA:
  - Lacks the capacity to ensure that Recovery Act funds for the Capital Fund program will follow HUD requirements and the Recovery Act;
  - Failed to openly compete procurements and establish written contract provisions to protect New London Housing interests;

- Failed to ensure that contractors paid workers the minimum wage required by law; and
  - Did not complete cost or price estimates to ensure that prices paid were reasonable.
- Miami Dade Housing Authority (MDHA) in Miami, Florida was awarded a \$19.3 million capital fund formula grant under the Recovery Act. According to OIG, MDHA:
  - Did not comply with Recovery Act procurement requirements;
  - Did not properly prioritize Recovery Act funded activities; and
  - Lacks staff at sufficient levels to handle Recovery Act workload.
- Housing Authority of New Orleans (HANO), in New Orleans, Louisiana was awarded a \$34.5 million capital fund formula grant under the Recovery Act. According to OIG, HANO:
  - Suffers from rampant fraud, waste and abuse. For instance, the former chief financial officer plead guilty to embezzling over \$900,000 in Authority funds, three staff members were placed on administrative leave after accusations that they stole more than \$100,000 through an accounting scheme, and a former department director plead guilty to federal theft for illegally using over \$45,000 of voucher funds to pay rent on his residence;
  - Did not ensure that its procurement policy and HUD rules were followed when funds were spent; and
  - Spent \$321,462 on eight unsupported disbursements. A review of 30 randomly selected accounts payable disbursements, which totaled more than \$1.2 million, determined that 27 percent of their disbursements were unsupported.
- Syracuse Housing Authority (SHA), in Syracuse, New York was awarded a \$4.5 million capital fund formula grant under the Recovery Act. According to OIG, SHA:
  - Failed to follow HUD required procurement and contract regulations;
  - Improperly procured contracts under its capital fund program, with the following examples:

- For an underground steam line replacement contract, the original bid documents did not contain full disclosure of the scope of services sought;
- Change orders were executed that were outside the original scope of the contract and due to the change orders the costs nearly doubled on one particular project;
- Vinette Towers, which was targeted to receive a vast majority of Recovery Act funds received more than \$230,000. They received this from the Housing Authority without competition, request for proposal, or cost estimate; and
- A computer systems consulting firm was paid at least \$95,463. The billing rates were up to \$125 per hour and once again this consulting firm received Recovery Act money from the Authority without competition, request for proposal, or cost estimate. Further, the OIG noted that there appears to be no ceiling on the costs.

### **Questions**

These examples are alarming and what is even more shocking is that this is just a small sampling of what is happening under HUD. Accordingly, please answer the following questions and please respond by first repeating the enumerated question followed by the appropriate answer:

- 1) In spending Recovery Act dollars, does HUD take into consideration the capacity at which a Housing Authority can handle a large arrival of these funds? Please explain in detail.
- 2) It is my understanding that HUD maintains a list of troubled Housing Authorities based on public housing assessment scores.
  - a. Did any of the public Housing Authorities that are on the list of troubled Housing Authorities receive any Recovery Act money either directly or indirectly.
  - b. If yes, please name those organizations, set forth how much they received and provide a detailed explanation as to why they were provided taxpayer funds.
  - c. Is the list of troubled Housing Authorities publicly available? If yes, where can the public locate this list. If not, why not?
- 3) Please describe in detail the safeguards developed by HUD to limit fraud, waste, and/or abuse of Recovery Act funds at Housing Authorities.

- 4) Please describe in detail the actions taken to date by HUD against any and all Housing Authorities found to have misspent Recovery Act funds or otherwise not complied with their obligations, such as reporting on the use of funds.
- 5) Is HUD aware of any contract or grant being awarded to an entity or individual listed on the Excluded Parties List System? If so, please explain and describe what actions were taken regarding that entity or individuals.

Thank you in advance for your prompt attention to this matter. I would appreciate receiving your response to this letter by March 29, 2010. Should you have any questions regarding this matter, please do not hesitate to contact Chris Armstrong or Brian Downey of my staff at (202) 228-0927. All documents responsive to this request should be sent electronically in PDF format to [Brian\\_Downey@finance-rep.senate.gov](mailto:Brian_Downey@finance-rep.senate.gov).

Sincerely,



Charles E. Grassley  
Ranking Member

cc: The Honorable Kenneth M. Donohue, Sr.  
Inspector General  
United States Department of Housing and Urban Development